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Economic
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ALBERTA BUSINESS OUTLOOK

1991 - 1992

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1991 - 1992

ALBERTA BUSINESS OUTLOOK

During the month of October 1991, Alberta Economic Development & Trade conducted its semi-annual Survey of Forecasters. The survey attempts to identify a short term consensus forecast for the global, North American, and Alberta economies. The 1991 - 1992 Alberta Business Outlook is based on the results of this survey, as well as an analysis of the recent performance and prospects for key sectors of the Alberta economy.

OVERVIEW

Over the past two decades, Alberta's increasingly industrialized economy has realized substantial gains in growth and development. From 1971 to 1990, the size of the Alberta economy more than doubled in terms of real Gross Domestic Product (GDP), while the population increased by 56% - from 1.6 million in 1971 to 2.5 million in 1990.

While energy and agriculture continue to be major contributors to Alberta's overall economic performance, much of the recent growth has been broader based and spread across a number of industries, including forestry, processed foods, petrochemicals and plastics, electronics, advanced technologies, tourism, and the business service industries.

The benefits of a more diversified economic base have meant that the Alberta economy has continued to expand and create new jobs - in spite of a North American recession and relatively weak prices for the province's energy and agricultural commodities.

Most forecasters agree that Alberta will continue to have one of the highest growth rates among all the provinces, and both Canada and the United States as a whole. Real GDP growth for Alberta is forecast to be in the range of 0.4% to 1.5% in 1991, and 2.7% to 3.7% in 1992.

THE GLOBAL OUTLOOK

The outlook for the world economy, and particularly the United States and Canadian economies, has an important bearing on Alberta's future economic prospects. As shown in Table 1, international and interprovincial merchandise exports accounted for 37.5% of Alberta GDP in 1990.

TABLE 1: ALBERTA'S MERCHANDISE EXPORTS - 1990

	Total Merchandise Exports ($ Millions)		Share of Alberta GDP (%)	
Total International		15,743		21.7
-United States	11,701		16.1	
-Asia	2,394		3.3	
-Europe	735		1.0	
-Other International	913		1.3	
Rest of Canada		11,470		15.8
Total Merchandise Exports		27,213		37.5

Source: Alberta Economic Development & Trade, October 1991

Table 2 shows the outlook for the world economy, and for selected national and regional economies.

TABLE 2: OUTLOOK FOR THE WORLD ECONOMY
(Annual Percentage Change in Real GNP/GDP)

		Forecast	
	1990	1991	1992
All Countries	2.0	1.0	2.5
G-7 Countries			
- United States	1.0	-0.2	3.0
- Canada	0.5	-1.0	3.0
- Japan	5.6	3.5	3.5
- France	2.8	1.4	2.5
- Germany	4.5	2.8	2.0
- Italy	2.0	1.7	2.5
- United Kingdom	0.6	-1.8	1.5
Asian Countries (Excluding Japan and PRC)	5.3	5.0	5.0
USSR and Eastern Europe	-4.0	-4.5	-3.0

Source: Survey of Forecasters, October 1991

THE GLOBAL OUTLOOK - HIGHLIGHTS

- The world economy will show sluggish growth in 1991, with real output forecast to increase by only 1%. This is largely the result of the North American recession and deteriorating economic conditions in the USSR and Eastern Europe.

- With the end of the Gulf War, prospects for the world economy are brighter in 1992. Growth in real output should reach 2.5%.

- Both the United States and Canada appear to have emerged from recession in the second quarter of 1991.

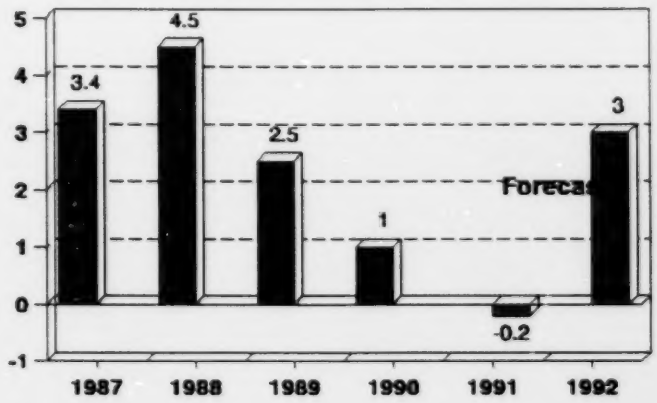
- Economic growth will continue in Japan and Germany in 1991 and 1992, although at a slower pace.

- Asian countries will continue to have significantly higher rates of economic growth than North American or European economies.

- The outlook for the USSR and Eastern Europe remains bleak as the transition to a more market oriented system continues to cause severe economic dislocations (e.g., increased unemployment, higher inflation, and falling output).

OUTLOOK FOR THE UNITED STATES

Chart 1
United States Real GNP Growth Rates (%)
1987 - 1992



Source: Survey of Forecasters
October 1991

- Increases in employment, housing starts, retail sales, and industrial production signalled that overall economic growth in the United States economy likely resumed in the second quarter of 1991.

- Lower interest rates and renewed consumer confidence in the aftermath of the Gulf War are driving the recovery.

- Inflation is not a major problem at this point in the business cycle. Slack labour markets, low capacity utilization rates, and relatively low private sector borrowing requirements should ensure that inflation does not become a problem in the near term.

- Unlike previous recoveries, where growth averaged about 5% in the first year following a recession, real output is expected to increase by only 3% this time.

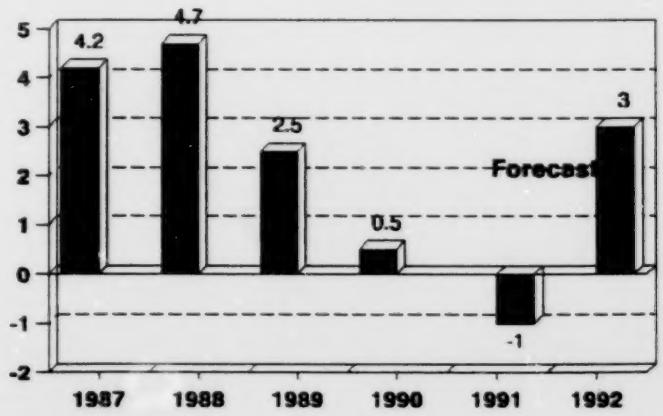
- Growth in consumer spending is expected to be quite limited given current levels of household debt and the low personal savings rate.

- The sluggish United States recovery underlies the relatively weak economic recovery in Canada.

- The United States budget deficit for the 1990/91 fiscal year is estimated at $280 - $300 billion, or 5.1% of GNP. Little improvement is forecast for 1991/92, in spite of renewed economic growth.

OUTLOOK FOR CANADA

Chart 2
CANADIAN REAL GDP GROWTH RATES (%)
1987 - 1992



Source: Survey of Forecasters
October 1991

- The 1990/91 recession appears to have been largely policy-induced, brought on in part by the Bank of Canada's efforts to contain domestic inflationary pressures. The economic slowdown in the United States was also a contributing factor to the Canadian recession.

- Recent economic data indicates that the Canadian economy likely emerged from recession in the second quarter of 1991.

- The recession was concentrated primarily in Ontario where total employment fell by 260,000 persons, or 5.2% from its 1989 peak. Employment levels in Ontario's manufacturing sector declined by 202,000 persons, or 18.8% from peak to trough.

- The Canadian manufacturing sector has also suffered from a high cost structure and poor productivity performance in recent years. Between 1985 and 1989, labour productivity in manufacturing grew by only 0.1% in Canada, while improving an average of 15.3% in other G-7 countries.

- With the implementation of the Federal Government's Goods and Services Tax (GST), real disposable income and consumer spending both fell by about 8%, at annual rates, in the first quarter of 1991.

- The near term recovery is expected to see relatively weak growth in consumer expenditures, owing to the high levels of consumer debt and continued uncertainty over employment prospects. Furthermore, export growth will be constrained as a result of the overvalued Canadian dollar and the modest economic recovery in the United States.

OUTLOOK FOR ALBERTA

- Table 3 provides an overview of the economic and industrial structure of Alberta, as well as a profile of the key sectors and industries which make up the Alberta economy.

- Table 4 shows some of the current economic forecasts for Alberta. The general consensus is that real economic growth in Alberta will exceed the Canadian average in both 1991 and 1992.

- While most of the North American economy is only just beginning to emerge from recession, the Alberta economy has continued to expand and create new jobs. Most forecasters agree that Alberta will continue to have one of the highest growth rates among all the provinces, and both Canada and the United States as a whole. Real GDP growth for Alberta is forecast to be in the range of 0.4% to 1.5% in 1991, and 2.7% to 3.7% in 1992.

- The Alberta economy is also expected to create between 14,000 and 16,000 new jobs in 1991, and 20,000 to 24,000 in 1992. This is in addition to the 107,000 new jobs created in Alberta over the past five years. Clearly, much progress has been achieved in diversifying Alberta's economic base, and the benefits are evident from the stronger and more stable growth of the economy.

TABLE 3: ALBERTA ECONOMY AT A GLANCE - 1990

Area		661,185 Square Kilometres
Population (July 1991)		2,525,000
Median Age (Years)		30.9
THE ECONOMY - 1990		
Gross Domestic Product (Market Prices)		$72,580 Million
Private and Public Investment		$21,831 Million
Total Value of Mineral Production		$19,031 Million
Crude Oil	$11,394 Million	
Natural Gas	$ 4,716 Million	
Natural Gas By-Products	$ 2,120 Million	
Sulphur	$ 315 Million	
Coal	$ 486 Million	
Total Manufacturing Shipments		$18,952 Million
Food & Beverage	$ 4,517 Million	
Refined Petroleum Products	$ 3,608 Million	
Petrochemicals & Plastics	$ 3,514 Million	
Fabricated Metal Products	$ 1,037 Million	
Lumber & Wood Products	$ 930 Million	
Primary Metals	$ 872 Million	
Printing & Publishing	$ 771 Million	
Industrial Machinery	$ 706 Million	
Pulp & Paper Products	$ 702 Million	
Construction Materials	$ 623 Million	
Electronics	$ 529 Million	
Other	$ 1,143 Million	
Total International Merchandise Exports		$15,743 Million
Total International Services Exports		$ 1,487 Million
Tourism Receipts		$ 2,590 Million
Farm Cash Receipts		$ 4,221 Million
Construction Work Purchased		$13,537 Million
Housing Starts		17,227 Units
Labour Force		1,324,000
Employment		1,231,000

Source: Alberta Economic Development & Trade, Adapted from Alberta Bureau of Statistics, October 1991

TABLE 4: CURRENT ECONOMIC FORECASTS FOR ALBERTA

	Real GDP (% Change)			Employment (% Change)			Unemployment Rate (Percent)			Housing Starts (000)			Retail Sales (% Change)			Consumer Price Index (% Change)		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Royal Bank of Canada (October 1991)	1.5	0.4	3.3	1.4	1.5	1.7	7.0	8.0	7.8	17.2	12.3	16.0	5.9	2.0	6.2	5.4	6.2	3.3
Toronto-Dominion Bank (September 1991)	2.0	1.5	3.2	1.4	1.2	1.9	7.0	7.9	7.7	17.2	13.5	16.0	---	---	---	5.7	6.4	3.5
Bank of Montreal (August 1991)	2.6	0.6	2.9	1.4	1.3	---	7.0	8.0	---	17.5	10.5	---	---	---	---	---	---	---
Conference Board of Canada (August 1991)	2.7	0.3	2.7	1.4	1.7	1.9	7.0	8.1	8.2	17.9	13.4	17.6	5.8	-1.3	4.6	5.8	5.8	3.5
Canada Mortgage & Housing Corp. (July 1991)	3.2	1.0	2.8	1.4	1.0	1.7	7.0	8.1	7.9	17.2	12.5	15.6	---	---	---	---	---	---
Canadian Imperial Bank of Commerce (June 1991)	1.7	0.6	3.7	1.4	0.5	2.5	7.0	7.2	6.4	17.2	14.7	18.0	2.8	5.6	7.0	5.8	6.9	4.2

Source: Alberta Economic Development & Trade, Survey of Forecasters, October 1991

OUTLOOK FOR ALBERTA - CONTINUED

- The decline in natural gas prices has significantly weakened oil and gas investment in the province.

- Housing construction is expected to recover in the latter half of 1991 as lower interest rates, stable housing prices, and continued net in-migration improve the market.

- According to the Canada Mortgage and Housing Corporation, net in-migration should total 20,500 in 1991 and 17,500 in 1992.

- Alberta's unemployment rate is forecast to remain in the range of 8% in both 1991 and 1992.

It should be noted that there are some downside risks to the Alberta outlook, particularly if oil and gas prices fall below the levels currently forecast. Another potential risk is the possibility of a weaker than expected economic recovery in either the United States or Canada. There are also a number of other factors - such as the ongoing Constitutional debate, the outcome of the "Uruguay Round" of Multilateral Trade Negotiations, and the future situation in international grain markets - which could directly or indirectly impact on Alberta's economic prospects over the short to medium term.

SECTOR OUTLOOKS

Oil and Gas

- Alberta's production of crude oil and equivalent includes conventional light, medium and heavy crudes, synthetic crude oil, bitumen, and pentanes plus. In 1990, total crude oil production averaged 1.37 million barrels per day, down about 2% from 1989 levels. In the first seven months of 1991, production was up slightly over the same period last year.

- Natural gas sales increased by 2.3% to 3.2 trillion cubic feet in 1990, and grew by a further 4.1% in the first seven months of 1991. Exports to the United States, which now account for more than 40% of Alberta's total natural gas sales, are expected to increase by 4% to 5% in 1991 and by as much as 10% in 1992.

- Considering the environmental advantages of natural gas over other sources of energy, the long term growth potential for Alberta gas exports is very positive. While increased gas exports to the United States are currently limited by pipeline capacity, numerous pipeline expansion projects are either currently under construction or are actively being considered.

- Alberta's crude oil and natural gas production revenues totalled $18.2 billion in 1990, an increase of more than 19% over the previous year. This was primarily due to the higher crude oil prices attributable to the Gulf War.

- Despite increased production and sales, industry revenues in 1991 are expected to decline due to lower crude oil and natural gas prices. Gas prices have been significantly weaker this year, with the October price for Alberta gas (average market price) about 31 cents per thousand cubic feet lower than the comparable price in October 1990. Crude oil prices averaged $21.56 (U.S.) per barrel in the first ten months of this year and have recently traded in the $23 to $24 (U.S.) per barrel range.

- In 1992, the Independent Petroleum Association of Canada (IPAC) is forecasting a further 5% to 10% drop in the average field price of natural gas to between $1.30 and $1.35 per thousand cubic feet. IPAC is also forecasting that crude oil prices will likely remain in the $21 to $26 per barrel range.

- With reduced production revenues and industry cashflow in 1991, investment in conventional oil and gas drilling activity has slowed, and is expected to be slightly below the overall level of activity in 1990.

- Significant new investment is being undertaken in Alberta's non-conventional oil and gas industry. Construction of the $825 million Shell Canada Caroline project is now underway and is expected to be completed in late 1992. Construction is also proceeding on the $1.4 billion Husky Oil Upgrader project which is scheduled for start-up in September 1992. This project will provide further processing of heavy oil production from eastern Alberta and Saskatchewan.

Agriculture

- Agriculture makes an important contribution to the Alberta economy, both at the primary producing level and the secondary processing level. Reflecting this, the estimated $4.2 billion in farm cash receipts generated by the province's farming enterprises in 1990 was enhanced by a further $4.5 billion worth of shipments by the food and beverage industry.

- Realized Net Farm Income in 1991 is forecast to total $411 million, representing a 2% increase from the 1990 level of $403 million. This marginal increase is primarily the result of increased program expenditures and an expected lower level of farm operating expenses.

- Farm cash receipts for 1991 are estimated at $4,189 million, down from the 1990 level of $4,221 million. Crop receipts are projected to equal $1,893 million, up 2.5% from the 1990 level of $1,847 million. The increase is the result of higher program payments for grains and oilseeds more than offsetting lower market receipts.

- Livestock receipts for 1991 are expected to decrease from 1990 levels by 3% to $2,296 million. Decreased cattle receipts in 1991 are due to a combination of steady prices and reduced output. Hog prices and output both declined to result in the drop in 1991 hog receipts.

Manufacturing

- In terms of real value of shipments, Alberta's manufacturing base has nearly tripled in size since 1970. Alberta's manufacturing sector consists primarily of **value-added resource products**, such as petrochemicals and plastics, forest products, processed foods and refined petroleum products, and **industrial goods**, including oil and gasfield equipment, fabricated metal products, transportation equipment, electronic products and construction materials.

- Overall, Alberta manufacturing shipments increased by 3% in 1990, compared to a 4.2% decline for Canada as a whole. Growth is expected to continue, led by increased shipments in forest products and petrochemicals.

- Alberta's manufacturing sector has made a major contribution to the province's economic development and diversification. Investment in manufacturing increased by 9% in 1991 to $2.6 billion. This represents a continuation of the impressive growth in manufacturing investment since 1985, and will contribute to greater employment and production in the years ahead.

- In the forest products industry, more than $3.5 billion in new investment has recently been completed or is proceeding in northern Alberta. This includes the $1.6 billion Alberta Pacific Forest Industries bleached kraft pulp mill project which commenced construction earlier this year. As a result of this increased productive capacity, forest industry shipments, which amounted to more than $1.6 billion in 1990, are expected to nearly double over the next few years.

- Major new investment is also occurring in the petrochemical industry, which will further add to Alberta's productive capacity in higher value-added products. This includes Dow Chemical's $800 million hydrocarbon facility, currently under construction in Fort Saskatchewan, and Alberta Envirofuels $300 million MTBE (octane enhancer) plant near Edmonton. In addition, Union Carbide has announced its intention to proceed with a $350 million expansion of its ethylene glycol facility near Red Deer.

Advanced Technologies

- Alberta's advanced technology sector has demonstrated impressive growth over the past decade. Over 50,000 Albertans are now employed by nearly 1,000 advanced technology enterprises operating in the province.

- Alberta companies are involved in a wide range of activities, including the development of medical technologies (supported by the Alberta Heritage Foundation for Medical Research), biotechnology, pharmaceuticals, telecommunications, electronics, instrumentation, computers and software, advanced industrial materials, and the aerospace industries.

- The Alberta Government leads most Canadian provinces in its commitment to science and technology, with an average annual investment of $250 million over the past eight years. Furthermore, an estimated $185 million of the funding provided to the province's universities supports research infrastructure.

- The $140 million WESTAIM project is an excellent example of the level of industry and government cooperation that has emerged in Alberta's advanced technology sector. A world-class product and process development centre has recently been established in Fort Saskatchewan, operated by WESTAIM Technologies Inc., to identify new and innovative approaches for commercializing on advanced industrial materials research within the province.

- The recent decision by Pratt & Whitney Canada to locate a $145 million aerospace operation in Lethbridge is indicative of Alberta's growing international reputation in the aerospace industries. When completed, the plant will use proven technology to assemble and test a new family of turboshaft aircraft engines and to manufacture components for Pratt & Whitney's existing product line.

Service Industries

- Alberta's service sector is extremely diverse and accounts for some 60% of the province's Gross Domestic Product (GDP) and more than 70% of provincial employment. This includes employment in the more traditional service industries, such as retail trade and food and accommodation services. It also includes an increasing number of workers in the business service industries, such as consulting engineering, scientific, technical and professional services, management consulting, computer and data processing services, transportation, telecommunications, and financial services.

- Business services, broadly defined, have grown more rapidly than the service sector as a whole and now account for one-fifth of total services employment and roughly 15% of all employment in the province.

- Given the increasing level of business services embodied in traded goods, the overall competitiveness of Alberta's resource and manufacturing industries now depends to a large degree on the quality and cost of these service inputs. As an example, purchased services inputs have been estimated to account for approximately 35 cents of every dollar of Alberta's merchandise exports.

- Business services are also exported in their own right, generating additional export revenues and jobs for the Alberta economy. In 1990, exports of Alberta's business services (excluding tourism) were estimated at $500 million.

- Tourism revenues in Alberta have more than tripled since the late 1970s, totalling approximately $2.6 billion in 1990. With tourism forecast to become the world's largest industry by the year 2000, Alberta's tourism industry expects to capture a growing share of this market over the next decade.

- Major new tourism and recreation facilities currently planned for the Bow-Canmore Corridor, two interpretive centres opening in Wetaskiwin and Cardston in 1992, and other proposed resort developments in the province, will further enhance Alberta's reputation as a major international tourism destination.

- Although the long term prospects for Alberta's tourism industry are promising, the outlook for 1991 is for little, if any, growth. The recession in both Canada and the United States has had an adverse impact on business and pleasure travel to Alberta with a corresponding decline in expenditures. Furthermore, the implementation of the GST has likely resulted in more Canadians vacationing in the United States and fewer coming to Alberta.

If you have any questions, or would like additional copies of the Alberta Business Outlook, please contact:

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INVESTMENT DEALERS ASSOCIATION OF CANADA

ECONOMIC OUTLOOK

ALBERTA

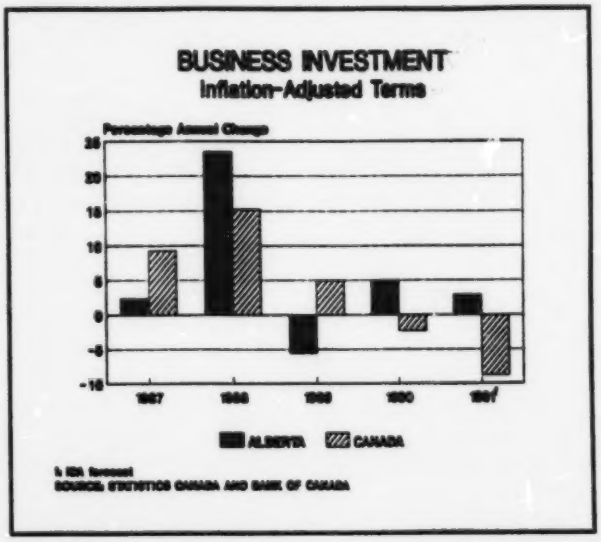
NOVEMBER 1991

Overview

Alberta will be one of only three provinces to record positive growth this year. Inflation-adjusted economic growth is projected at 0.5 percent, down from 1.5 percent in 1990. Ongoing work on major projects in the oil and gas sector, petrochemicals and pulp and paper manufacturing provide underlying support to economic activity this year. Business investment will increase by 3 percent in real terms in 1991, well above the 9 percent decline for the national economy.

Reduced spending in oil and gas exploration and development, reflecting weak profitability, lower energy prices, a more clouded outlook for future natural gas prices and higher operating costs contribute importantly to the slowdown in growth this year. Indeed, spending cut-backs will continue into next year, impairing the economic recovery. As well, in the early months of this year, the Alberta economy became engulfed in the recession which affected the rest of Canada almost a year earlier. Weak market conditions in the North American economy have lowered output levels and incomes in the province and contributed to more restrained consumer spending.

Investment-led growth provided momentum to the Alberta economy through the late 1980s and into the 1990s. Business spending expanded by one-third in the three-year period ended 1990, compared to a 25 percent gain for the country as a whole. Last year, Alberta led the country in business spending measured on a per capita basis. Investment has been widespread across the economy, with large capital outlays in natural gas transmission systems, non-conventional energy development, petrochemicals and pulp and paper manufacturing. In the past three years, the majority of total business investment, measured in inflation-adjusted terms, was outside the oil and gas sector.



This investment has strengthened the productive base of the Alberta economy - increasing the share of high value-added energy products such as petrochemicals, shifting development emphasis to natural gas and the oil sands where reserve potential exists and reducing dependence on the energy sector by diversifying into other resource and non-resource manufacturing and service industries.

Fiscal policy in Alberta has been reasonably well disciplined in recent years, compared with other provinces. After cutting the deficit by more than one-half last year, we expect a further reduction this year. This downward trend in the deficit in the past two years, and containment of deficits since the mid 1980s, mainly reflects tight control over expenditures. The annual average rate of increase in total spending in the past five years has been the lowest among all the provinces.

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However, the level of spending is still too high, given the large resource revenue component in total budget revenues. Resource revenues account for about 30 percent of general revenues. Declining resource revenues, reflecting depressed conditions in the energy sector, will keep pressure on government finances even if expenditures are held in check.

Energy Sector

In the past few years activity in the energy sector has been influenced by several key trends. Exploration and development activity is shifting to natural gas and tertiary oil production to exploit reserves for these commodities. While this shift in investment focus is a long-term trend, in the short run most current activity will be concentrated in crude oil investment reflecting higher relative prices for crude oil versus natural gas. Large integrated firms have become more focused in energy development, placing greater emphasis on major project investment in the natural gas sector and the oil sands. Conventional oil and gas development is becoming more the preserve of mid-sized and smaller energy companies. Investment in the natural gas sector has been hampered by the downward trend in gas prices since 1987 and limited pipeline capacity to access the domestic market and the United States.

These developments have led to significant rationalization of assets within the energy sector. This process began with the collapse and takeover of marginal energy firms following the oil price collapse in 1986. Rationalization continued, driven mainly by changing corporate strategies. Large integrated firms have down-sized operations and sold off non-core assets to focus mainly on project development. Also, corporate mergers and acquisitions, notably among the larger integrated companies, contributed to further rationalization of producing assets. This widespread restructuring resulted in $50 billion worth of property transactions in the past three years. As at the late fall of 1991, more than $4 billion in unsold oil and gas properties remain on the market.

Corporate restructuring in the energy sector continues apace. Depressed conditions in energy markets, weak earnings and uncompetitive returns on capital have forced the large integrated firms, and many mid-sized operations, into retrenchment. Corporate downsizing continues and investment budgets have been slashed. Despite this overarching weakness in the energy sector, a small sub-set of highly dynamic junior energy companies has emerged. These companies are characterized by entrepreneurial management, aggressive capital spending and exploration and tight control over operating costs. These companies have successfully raised risk capital in public markets this year.

Conventional Oil and Gas Exploration and Development

Exploration and development activity in the oil and gas sector will decline significantly this year and further cut-backs in spending are expected next year. Based on available data, oil and gas well completions will total 5,700 this year, down about 5 percent from last year's level. Recent drilling activity emphasizes this weakening investment trend. Rig activity typically begins to improve in September and October in anticipation of the winter drilling season. However, rig activity has declined significantly since last September, with half as many rigs active in this more recent period than a year ago. Drilling activity will continue to sag next year, with well completions totalling some 5,000.

COMPARATIVE ECONOMIC PERFORMANCE

	Canada					Alberta				
	1987	1988	1989	1990	1991f	1987	1988	1989	1990	1991f
GDP (% change) real terms	4.0	4.4	3.0	0.9	(0.7)	2.4	6.9	2.2	1.5	0.5
Business Investment (% change) real terms	9.3	15.2	5.0	(2.3)	(8.8)	2.4	23.5	(5.6)	5.0	3.0
Corporate Profits (% change)	24.7	10.2	(4.9)	(19.2)	(4.0)	34.2	(11.2)	3.8	9.2	0.0
Consumer Prices (% change)	4.4	4.0	5.0	4.8	6.0	4.0	2.7	4.2	5.8	6.0
Employment (% change)	2.9	3.2	2.0	0.7	(2.0)	0.4	3.5	2.3	1.4	2.0
Unemployment Rate (%)	8.8	7.8	7.5	8.1	10.5	9.6	8.0	7.2	7.0	8.0
Budget Deficit (% GDP)	5.1	4.8	4.5	4.5	4.4	1.6	2.9	5.0	1.5	(0.0)
Net Public Debt* (% GDP)	54.4	54.5	54.9	57.3	59.8	6.7	9.8	13.0	14.1	13.8

f: IDA forecast

*: Net public debt includes marketable bonds and treasury bills issued by the province, the Alberta Capital Fund, borrowings from public sector pension funds and net of sinking funds. Net public debt excludes debt issued on behalf of self-financing corporations.

SOURCE: STATISTICS CANADA, BANK OF CANADA AND FEDERAL AND ALBERTA PUBLIC ACCOUNTS

OIL AND GAS

Drilling Activity

Annual	Total Wells Completed
1987	7,078
1988	8,886
1989	5,804
1990	6,020
1991e	5,700
1992f	5,000

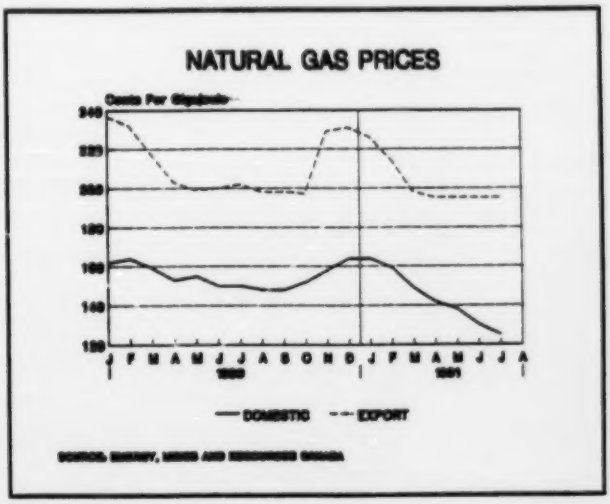
1991 Monthly Data	Oil	Gas	Total*
January	148	148	416
February	163	189	557
March	234	296	794
April	133	178	396
May	94	61	222
June	151	78	316
July	173	106	378
August	138	160	432
September	207	178	525

e: IDA estimate
f: IDA forecast
*: Includes dry and service well drillings.
Note: Monthly data refers to well completions in Western Canada and is therefore not strictly comparable to annual data.

SOURCE: CANADIAN PETROLEUM ASSOCIATION AND DAILY OIL BULLETIN

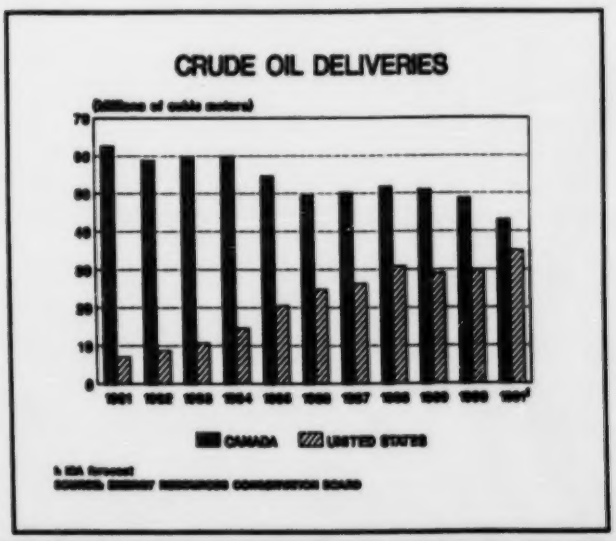
The weakening trend in energy investment this year has been masked by the flurry of crude oil exploration and development in January-April this year, in response to temporarily high prices. Activity has now fallen back to levels more consistent with prevailing crude prices. Exploration and development work in the natural gas sector accounts for most of the recent weakness in investment. This is an ominous development in that spending in the gas sector accounts for about 60 percent of total investment. In each of the latest five months ended September, natural gas well completions were, on average, about half the completions in the same period last year. Reduced drilling activity is confirmed by the sharp fall-off in seismic activity, down 29 percent in January-September this year from the year ago level. Also, the number of drill rigs in operation has declined sharply, with operating rigs in the second and third quarters this year well below last year levels and the lowest number since at least 1987. Finally, industry weakness is evident in sale prices for Crown land. Prices moved sharply lower this year to $142 per hectare, down from $175 last year and $300 in 1987.

Producers have slashed exploration budgets and scaled-back investment spending for several reasons. Recent weakening in natural gas prices has led to a markedly less optimistic outlook for future gas prices. The Alberta natural gas field price averages $1.30 per mcf, down from $1.50-1.70 last year. Average gas prices are now 60 percent below 1985 levels. Spot gas prices measured in inflation-adjusted terms are at their lowest levels in two decades. These lower prices are now embedded in contractual agreements. Producers for the



Alberta and Southern system will receive prices which are 20-30 cents lower than the previous contract price. The California Public Utility Commission (CPUC) ruling to permit direct gas sales between producers and consumers may further reduce average export prices for natural gas. Also, WGML (Western Gas Marketing Ltd.) has renegotiated a one-year contract with eastern Canadian utilities this summer, resulting in new prices about 12 cents per mcf less than the 1990-91 price.

Further, the strong Canadian dollar and higher operating and royalty costs have squeezed profit margins and forced cut-backs in investment spending. The higher dollar has tightened margins for U.S. dollar-priced crude oil and natural gas. As well, the growing maturity of Western Canadian Sedimentary Basin has significantly raised exploration and development costs.



The Alberta royalty regime which is linked to resource revenues has a heavy impact on cash flows and net profit margins when prices are low. The recent decision to provide royalty holidays as of November 1991 for new oilwells drilled reflects government concerns about the low level of drilling. Drilling is below levels typical of the early stages of the fall-winter drilling season. In an effort to spur activity, the government will provide a two-year royalty holiday, up to $1 million, for new exploration oil wells drilled between November this year and next March. A one-year royalty holiday is provided for wells drilled between April 1992 and March 1993. These measures will stimulate additional drilling by companies with an oil focus and available cash or access to risk capital.

Steadily expanding deliveries of natural gas to domestic and export markets in recent years has partly offset the impact of persistently low gas prices. Natural gas deliveries have expanded 20 percent in the past three years, with the United States accounting for the largest market share. The US share of Alberta gas is likely to increase once the Iroquois pipeline is completed, providing access to markets in the northeastern United States. However, the benefit of available markets for natural gas, albeit limited by pipeline constraints, will not provide sufficient compensation for existing difficult conditions. It is important to note that the Iroquois project, and other pipeline projects to U.S. markets, will be critical to the long-run viability of the natural gas sector, as long as natural gas prices are at economic levels.

Natural gas investment in the province this year is dominated by ongoing work on the $950 million Caroline sour gas field and processing plant. The project will initially have 16 producing wells and expand to 30 wells at peak production. Natural gas production will total 90 million cubic feet of per day. The project will also be a major producer of gas liquids and condensate at 45,000 barrels per day and sulphur at 4,000 tonnes per day.

Oil Sands

The production of synthetic crude has increased steadily in the past few years. Output of synthetic crude is projected to increase by 9 percent this year, mainly due to increased production at the Suncor and Syncrude plants in Fort McMurray. Capital spending on non-conventional oil production facilities will continue this year. The final stage of the Husky Oil heavy oil upgrader in Lloydminster will occur this year. Initial production is scheduled for the coming summer, with capacity at 46,000 barrels of oil per day. In other non-conventional investment, Esso Resources completed last year development of Phases 7 and 8 at its in-situ oil sands plant in Cold Lake. Start-up of these Phases is dependent on improved market conditions. Further significant oil sands development is contingent on an outlook for higher oil prices.

Natural Gas Transmission

Severe bottlenecks for the transportation of Alberta natural gas markets to the rest of Canada and the United States are still in place. These transportation constraints have forced producers to sell excess amounts of gas in the Alberta market, resulting in stiff gas against gas competition depressing domestic prices. Alberta producers will be unable to take advantage of higher export prices until pipeline capacity improves.

Construction of the Iroquois pipeline continues. This $600 million pipeline, operated by TransCanada Pipelines Limited, will transport Alberta gas through the New England states to the terminus in Long Island, New York. Construction of the pipeline, with capacity of 575 million cubic feet per day, is nearly complete. This pipeline will provide producers with access to markets on the eastern seaboard of the United States. In other projects, the Alberta Natural Gas Company plans to spend $187 million to expand its pipeline from Alberta to Kingsgate, British Columbia. This pipeline will improve access to the western United States, expanding capacity by 40 percent to 2,300 million cubic feet per day.

Altamont Gas Transmission and Pacific Gas Transmission have announced plans to construct pipelines to transport natural gas to the California market. Altamont plans a 1,000 kilometre pipeline from Wild Horse Montana to Opal Wyoming. The pipeline would then link with existing pipelines. Start-up of the $680 million project is slated for spring 1993. Pacific Gas Transmission has proposed expansion of its existing pipeline. Cost is estimated at $1.5 billion with construction beginning as early as next year. Both projects are presently under regulatory review.

Nova Corporation continues to expand pipeline capacity for gas gathering and transmission systems in the province. Last year the company spent $692 million on pipeline expansion and seven compressor stations. The company will spend another $600 million this year. Capacity of the Nova system will total 12.9 billion cubic feet per day this year, with plans to expand capacity to 16.2 billion cubic feet per day by 1995.

Petrochemicals

The petrochemicals industry is a major player in the Alberta energy sector. Output totalled $3.2 billion last year, one-fifth the value of total manufacturing shipments in the province. Total petrochemical exports to international markets amounts

to $1.6 billion or 10 percent of total Alberta exports abroad. In the last two years, performance in the industry has lagged mainly because of poor prices for bulk petrochemicals such as ethylene, polyethylene and styrene. One of the major petrochemical producers, Nova Corporation, is undergoing a major restructuring to reduce debt overhang and restore profitability.

The outlook for the petrochemicals industry is positive. The industry is the most cost-efficient producer of bulk petrochemicals in North America. Efficient operations have enabled most of the industry to survive depressed market conditions and is well-positioned to exploit opportunities when conditions improve. The industry will enhance its competitive position in U.S. markets once petrochemical tariffs fall away under the Free Trade Agreement. The industry will also benefit from ongoing investment in high-value added downstream petrochemical production.

Petrochemical investment doubled last year and is expected to virtually double again this year. The major project is expansion of the Dow Chemical plant in Fort Saskatchewan, the largest petrochemicals operation in western Canada. The company will expand its gas fractionating and polyethylene operations and begin construction of ethylene production facilities. Total cost is estimated at $800 million and the project is scheduled for completion by the end of 1994. In other projects, Alberta Enviro Fuels is constructing a $300 million MTBE (a gasoline additive) production facility in Strathcona. Chemical bleach producers in Alberta have also undertaken major investment in the past year. Two sodium chloride plants have come onstream. Canadian Occidental Petroleum Limited completed construction of a $60 million plant and Alchem Industry began operations at a new $45 million plant in May this year.

Forestry

Pulp and Paper Manufacturing

Capacity in pulp and paper manufacturing has increased steadily in the past four years. Annual investment in the industry peaked in 1989, accounting for about one-half total manufacturing spending in the province. Four new pulp and paper mills came on stream in 1990. These plants have contributed importantly to economic growth and job creation in northern Alberta.

Despite declining prices for pulp and paper, investment continues apace. The largest project underway is construction of a $1.3 billion bleach kraft mill by Alberta Pacific Forest Industries in the Athabasca region. When completed in the summer of 1993, the mill will have a capacity of 1,500 tonnes of hardwood pulp or 1,300 tonnes of softwood pulp per year and employ 340 persons. Further investment will be needed to upgrade existing plants to meet forthcoming federal and provincial environmental standards.

Paper recycling operations are an important component of paper manufacturing in order to capture a share of the growing recycled paper market. Consumer Paper Corporation is upgrading its existing plant in Redcliff to produce recycled tissue paper. When completed in the fall of 1992, this plant, employing 120 people, will produce 28,000 tonnes of tissue products each year. Investment in the project totals $45 million.

Lumber Production

Lumber production has grown rapidly in the province in the second half of the 1980s. Shipments of the wood industry grew twice as quickly as overall manufacturing shipments in this period. A high level of investment continues, with one major project in the planning stage. The Weldwood pulp and paper mill, completed last year, will spend $70 million to modernize the adjacent sawmill operations. Start-up of the upgraded mill, with triple the capacity of the old mill, will occur in the fall of 1993. Sunpine Forest Products, located in Rocky Mountain House, will begin construction of a new sawmill and wood preservation facility in March 1992. This $50 million plant will eventually produce 40-60 million board feet of lumber per year and employ 300 persons.

Other Manufacturing

Pratt and Whitney Canada Inc. recently announced that it will be building a new manufacturing plant in Lethbridge. The plant will initially be used for assembly of the company's new PW-200 helicopter engine. Supply contracts for this engine have been signed with both MBB Helicopters Canada Ltd. and the McDonnell Douglas Corporation. The first phase will be construction of a $51 million plant employing 170 persons. Completion is scheduled for 1993. The larger second phase is a $95 million expansion of the plant and work force. Start-up depends on demand for the PW-200 engines.

The other non-resource manufacturing project is in the planning stages. Computing Devices Company, a division of Control Data Canada Limited, has been awarded a $1 billion contract to manufacture telecommunication equipment for the Canadian army over a nine-year period. The company will begin construction of a $20 million plant in Calgary early next year. Over the nine-year contract, more than 14,000 radio units and related components will be produced. The plant will employ over 225 persons.

FARM CASH RECEIPTS
($ Millions)

	1989	1990	1991f
Crops			
Wheat*	693	716	
Canola	422	340	
Barley*	375	271	
Other	336	278	
Total	1,826	1,605	1,520
Livestock & Dairy Products			
Cattle & Calves	1,466	1,558	
Hogs	250	299	
Dairy Products	247	251	
Other	181	190	
Total	2,144	2,298	2,247
Direct Payments	560	318	423
Total Cash Receipts	4,530	4,221	4,190

*: Includes Canadian Wheat Board Payments
f: Agriculture Canada forecast
SOURCE: STATISTICS CANADA

Agricultural Sector

The agricultural sector in Alberta is well diversified with revenue balanced between crop and livestock production. Livestock receipts have averaged about half of total farm cash receipts since 1988. This is compared to an average 38 percent contribution in Manitoba and only 21 percent in Saskatchewan. This diversification of production has reduced Alberta's vulnerability to lower crop prices and production yields. Total crop receipts are expected to decline marginally this year to $1.5 billion.

Total livestock receipts are forecast to fall modestly this year, totalling $2.2 billion. This decline is also price related. An increased number of hogs coming to market pushed prices lower this year and resulted in sharply lower hog cash receipts. Cattle prices also fell slightly, offsetting gains in production.

Lower crop and livestock revenues will reduce total farm cash receipts slightly this year to $4.2 billion. However, a forecast higher level of farm subsidy payments will offset an otherwise larger decline. In 1991, the province introduced both the Gross Revenue Insurance Programme (GRIP) and the Net Income Stabilization Account (NISA). Payments from GRIP and NISA will mitigate declining levels of subsidization from other programmes. Net realized farm income is forecast to rise marginally this year to $441 million. The recently announced farm-aid package by the federal government will likely push income even higher for 1991.

Power Generation

Alberta is the only province in Canada with the majority of electricity generated by private corporations. TransAlta Utilities and Alberta Power generate power for all Alberta except the city of Edmonton. The city is served by Edmonton Power, operated by the municipality. These three companies have grown rapidly to meet the energy demands of the province. Electrical energy generation expanded by nearly 6 percent per year in 1986-90.

Two major projects account for recent investment in the utilities sector. The largest project was installation of the second power generation unit at facilities in Shearness, completed last November. The plant, jointly operated by TransAlta and Alberta Power, doubled capacity to 800 megawatts. Investment totalled $600 million. The second project, awaiting final regulatory approval, is expansion of Edmonton Power's Genesee plant. $500 million will be spent on installation of a second generating unit, doubling capacity to 800 mega-watts. In other investment, Power Resource Development Corporation will spend $40 million to construct a wood-waste thermoplant in Whitecourt. The plant will generate 21 mega-watts of power. Construction is scheduled for completion by the fall of 1993.

Labour Market

Strong growth in the Alberta economy in the past three years has resulted in larger increases in net migration to the province. In the past two years, the number of persons migrating to Alberta increased more than seven fold. Despite a rapidly expanding labour force due to in-migration and the highest participation rates in the country, large employment gains in this period enabled a modest decline in the unemployment rate, reaching 7 percent last year. The unemployment rate is expected to increase to 8 percent this year.

Fiscal Overview

Deficit and Debt Burden

The April 1991 Budget projected a budget surplus of $33 million for the current fiscal year 1991-92. This budget, however, is premised on a fairly optimistic outlook for the energy sector. We have serious doubts the budget surplus will

FISCAL SUMMARY

($ millions)

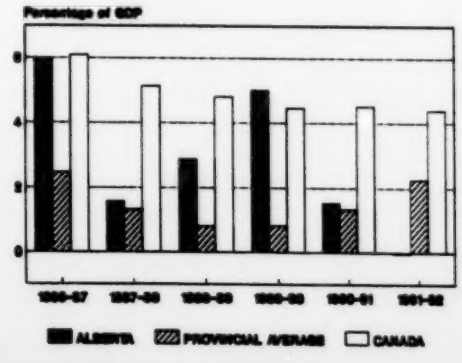
	1988-89	1989-90	1990-91	1991-92f
Revenue	9,106	9,720	11,896	12,618
Expenditure	10,889	13,044	12,982	12,585
Budget Deficit/(Surplus)	1,783	3,324	1,086	(33)
% GDP	2.9	5.0	1.5	(0.0)
Net Financial Requirements	2,037	2,349	1,765	(92)
% GDP	3.3	3.5	2.5	(0.1)
Net Public Debt*	6,047	8,654	10,002	10,185
% GDP	9.8	13.0	14.1	13.8

f: IDA forecast

*: Net public debt includes marketable bonds and treasury bills issued by the province, the Alberta Capital Fund, borrowings from public sector pension funds and net of sinking funds. Net public debt excludes debt issued on behalf of self-financing corporations.

SOURCE: ALBERTA BUDGETS AND PUBLIC ACCOUNTS

BUDGET DEFICIT



SOURCE: FEDERAL AND PROVINCIAL PUBLIC ACCOUNTS

be reached this year. Tax and royalty revenues will likely fall below projected levels mainly in response to reduced activity in the oil and gas sector. The fiscal target is an integral part of a five-year fiscal plan to achieve a balanced budget. Real progress, however, has been made in the past two years, reducing the deficit from 5 percent GDP to virtual fiscal balance this year. Even if Alberta falls short of a budget surplus this year, the province will be one of only five provinces to reduce its deficit this year.

Net public debt has accumulated gradually in relation to economic activity in recent years, reflecting the downward trend in the budget deficit. Net public debt totals $10.2 billion or 13.8 percent GDP. The province has the third lowest debt burden, measured as a ratio of debt to GDP, among the provinces. Moreover, Alberta is the only province in Canada to reduce its debt/GDP ratio this year. This relatively low debt burden and responsible fiscal management has enabled a high credit rating for the province. Alberta is rated Aa1 by Moody's and AA by Standard and Poors, Canadian Bond Rating Service and Dominion Bond Rating Service.

Expenditure Restraint

Expenditure restraint has contributed importantly to deficit reduction in the past two years. Total expenditures have decreased on average 1.8 percent in this period. Alberta has the best expenditure management record of any major government in Canada. The annual rate of increase in program spending averaged 1.9 percent in the past five years, compared with a provincial average rate of 7 percent and a federal average rate of 5 percent.

The government has done a good job limiting expenditure increases in recent years, by prioritizing spending and cutting administrative costs to the bone. Also, spending on programs other than health, education and social services has declined steadily in the past six years, both in absolute terms and as a share of total program spending. The level of total expenditures, however, is still too high relative to the large component of cyclically-sensitive resource revenues. Resource revenues account for about 30 percent of general revenues. These revenues are vulnerable to continuing depressed conditions in the energy sector.

Budget Revenues

Higher revenues have also been a factor behind deficit reduction in the past two years. Tax revenues have increased in response to income growth and higher excise taxes. While Alberta levies a high-income surtax (8 percent) and is one of three provinces to impose a flat tax (0.5 percent) on taxable income, the overall provincial income tax rate remains the lowest in Canada. Gains in royalty revenues contributed to narrowing the deficit gap. Finances also benefitted from higher Alberta Heritage Fund investment income and one-off contributions from privatization initiatives ($335 million last year from the Telus sale) and lottery contributions ($225 million).

The Alberta economy depends on the vitality of the small and medium-sized business sector for growth and job creation in the province, reflecting the growing importance of these businesses in the energy sector, to regional development and to diversification of the manufacturing and service sectors. The existing tax system fails to provide a satisfactory incentive for start-up and expansion of new and small businesses. These businesses, particularly in the energy sector, have a critical need for new capital. Given high capital gains taxes and difficulties in raising equity capital, an effective provincial incentive should be put in place. We recommend the Alberta government make strong representations to Ottawa for the right to design an effective stock savings plan and end discrimination against Alberta and other provinces with tax collection agreements, structuring an effective incentive for local business.

The oil and gas industry is undergoing difficult economic and market conditions. Further restructuring of the royalty regime would provide relief to the industry and support investment in the energy sector. Changes in the existing royalty structure would not necessarily jeopardize tax revenues, reflecting the multiplier effect on incomes from increased energy investment.

Summary

The pace of economic activity in Alberta will decelerate markedly this year. The economy will expand at a modest 0.5 percent, one of only three Canadian provinces to eke out positive growth this year. Ongoing projects in natural gas development and transmission systems, petrochemicals and pulp and paper manufacturing provide support to the economy. Reduced investment spending in the oil and gas sector, and retrenchment by recession-conscious consumers, are major factors underlying the economic slowdown. Weak profitability and an uncertain outlook for gas prices, given recent price weakness, have caused companies to slash budgets and cut-back spending. Reduced investment will continue through the winter drilling season and well into next year. Despite significant diversification of the economic base, a healthy oil and gas sector is critical to a sound economy. We recommend further government initiatives to provide royalty relief to Alberta energy companies.

The Alberta government has demonstrated commendable resolve to establish and meet tough budget deficit targets. Progress in deficit reduction in the past two years, and the political will to make hard decisions, is evidence of the commitment to fiscal restraint. While Alberta may not meet the stated objective of a balanced budget this year, it has made a solid effort, achieving the best expenditure management record of any government in the country. Expenditure levels are still too high relative to an economic base heavily dependent on the energy sector, leaving finances vulnerable to a significant fall-off in resource revenues. However, tight control over expenditures in the past five years provides some room to weather emerging difficult conditions.

Investment Dealers Association of Canada
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